



GT REILLY
& COMPANY
CPAs and Advisors

Audited Financial Statements

iCatholic Media, Inc.

June 30, 2016

ICatholic Media, Inc.

Audited Financial Statements

June 30, 2016

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Independent Auditors' Report

Board of Incorporators
iCatholic Media, Inc.

We have audited the accompanying financial statements of iCatholic Media, Inc., which comprise the statements of financial position as of June 30, 2016 and 2015, and the related statements of activities, and cash flows for the years then ended, and the related notes to the financial statements.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risk of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of iCatholic Media, Inc. as of June 30, 2016 and 2015, and the results of its changes in net assets and cash flows for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

G.T. Reilly & Company

Milton, Massachusetts
September 27, 2016

An independent firm associated with
Moore Stephens International Limited

MOORE STEPHENS

Statements of Activities and Changes in Net Assets

	Year Ended June 30, 2016				Year Ended June 30, 2015			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
REVENUES, GAINS & OTHER SUPPORT:								
Contributions	\$ 1,804,522	\$ 10,000	\$ -	\$ 1,814,522	\$ 1,674,622	\$ 45,000	\$ -	\$ 1,719,622
Legacies and bequests	1,047,192	-	-	1,047,192	902,194	-	-	902,194
Investment income	442,161	253,250	-	695,411	474,645	271,789	-	746,434
Educational programming & broadcasting (Note 6)	4,800,000	-	-	4,800,000	4,800,000	-	-	4,800,000
Printing and advertising revenue	1,644,462	-	-	1,644,462	1,585,157	-	-	1,585,157
Subscription and advertising revenue	956,719	-	-	956,719	950,353	-	-	950,353
Other	7,267	-	-	7,267	2,917	-	-	2,917
Net assets released from restrictions through satisfaction of program restrictions (Note 10)	314,913	(314,913)	-	-	271,509	(271,509)	-	-
Net losses on investments (Notes 1 & 2)	(958,139)	(544,080)	-	(1,502,219)	(252,840)	(144,899)	-	(397,739)
TOTAL REVENUES, GAINS & OTHER SUPPORT	10,059,097	(595,743)	-	9,463,354	10,408,557	(99,619)	-	10,308,938
EXPENSES								
Salaries	3,079,537	-	-	3,079,537	2,883,742	-	-	2,883,742
Payroll taxes	214,829	-	-	214,829	203,044	-	-	203,044
Fringe Benefits	695,524	-	-	695,524	715,731	-	-	715,731
Fundraising	144,142	-	-	144,142	111,294	-	-	111,294
Broadcasting	410,771	-	-	410,771	514,397	-	-	514,397
Occupancy	329,411	-	-	329,411	314,286	-	-	314,286
Contract services	455,108	-	-	455,108	490,326	-	-	490,326
Supplies and materials	887,255	-	-	887,255	814,028	-	-	814,028
Maintenance of equipment	429,499	-	-	429,499	402,865	-	-	402,865
Postage	218,476	-	-	218,476	201,979	-	-	201,979
Legal and accounting	59,945	-	-	59,945	91,698	-	-	91,698
Service fees	80,845	-	-	80,845	73,017	-	-	73,017
Telecommunications	197,418	-	-	197,418	340,274	-	-	340,274
Sales commissions	153,270	-	-	153,270	169,296	-	-	169,296
Shipping and delivery	54,795	-	-	54,795	74,095	-	-	74,095
Marketing	80,750	-	-	80,750	90,807	-	-	90,807
Interest	36,215	-	-	36,215	42,988	-	-	42,988
Depreciation	1,368,962	-	-	1,368,962	1,382,230	-	-	1,382,230
Board designated growth initiative	35,351	-	-	35,351	107,345	-	-	107,345
Miscellaneous	152,905	-	-	152,905	152,326	-	-	152,326
TOTAL EXPENSES	9,085,008	-	-	9,085,008	9,175,768	-	-	9,175,768
INCREASE (DECREASE) IN NET ASSETS	974,089	(595,743)	-	378,346	1,232,789	(99,619)	-	1,133,170
NET ASSETS AT BEGINNING OF YEAR	30,908,361	1,739,405	5,025,000	37,672,766	29,675,572	1,839,024	5,025,000	36,539,596
NET ASSETS AT END OF YEAR	\$ 31,882,450	\$ 1,143,662	\$ 5,025,000	\$ 38,051,112	\$ 30,908,361	\$ 1,739,405	\$ 5,025,000	\$ 37,672,766

iCatholic Media, Inc.

Statements of Cash Flows

Year Ended June 30

	<u>2016</u>	<u>2015</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ 378,346	\$ 1,133,170
Adjustments to reconcile change in net assets to net cash provided by operating activities:		
Depreciation	1,368,962	1,382,230
Net realized and unrealized losses on investments	1,502,219	397,739
Changes in operating assets and liabilities:		
Accounts receivable	35,097	(74,478)
Accrued lease revenue	(2,520,000)	(2,661,290)
Accrued interest and dividends receivable	18,292	(767)
Prepaid expenses and other assets	(152,338)	(11,101)
Accounts payable and accrued expenses	117,926	(184,703)
Deferred revenue	93,788	36,146
NET CASH PROVIDED FROM OPERATING ACTIVITIES	<u>842,292</u>	<u>16,946</u>
CASH FLOWS USED IN INVESTING ACTIVITIES		
Additions to property and equipment	<u>(309,284)</u>	<u>(80,452)</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayments on note payable to affiliate	(115,513)	(105,919)
Repayments on note payable	<u>(5,639)</u>	<u>(7,895)</u>
NET CASH USED IN FINANCING ACTIVITIES	<u>(121,152)</u>	<u>(113,814)</u>
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	411,856	(177,320)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR	<u>938,725</u>	<u>1,116,045</u>
CASH AND CASH EQUIVALENTS AT END OF YEAR	<u>\$ 1,350,581</u>	<u>\$ 938,725</u>
 <u>Supplemental Disclosure of Cash Flow Information</u>		
Cash paid for interest	<u>\$ 36,215</u>	<u>\$ 42,988</u>

Notes to Financial Statements

June 30, 2016

Note 1 – Nature of Activities and Summary of Significant Accounting Policies

Nature of Activities – iCatholic Media, Inc. (the “Corporation”) provides religious and educational programs, publications, news media and other electronic and print communication services to the Roman Catholic community. Support for these services is provided by contributions from the general public. These services are provided under the brand names of The CatholicTV Network, CatholicTV.com, America’s Catholic Television Network®, The CatholicTV Monthly, iCatholic, iCatholic.com, iCatholic Media, iCatholic Magazine, The Pilot, The BostonPilot.com, PilotCatholicNews.com, Pilot Bulletins, Pilot Printing, Pilot Catholic Directory, and Catholic Media Secretariat.

Financial Statement Presentation – The Corporation reports information regarding its financial position and activities according to three classes of net assets as determined by donor-imposed restrictions: unrestricted net assets, temporarily restricted net assets, and permanently restricted net assets (see below, “Contributions and Donor Restrictions”, and Note 10).

Accounting Estimates – The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Actual amounts could differ from those estimates.

Cash and Cash Equivalents – The Corporation considers short-term, highly-liquid investments with original maturities of three months or less at acquisition to be cash equivalents.

Accounts Receivable – Accounts receivable are due within one year and are stated net of an allowance for doubtful accounts, when considered necessary, which would be reported on the face of the Corporation’s statement of financial position. The allowance is established via a provision for bad debts charged to operations. On a periodic basis, management evaluates its accounts receivable and establishes or adjusts its allowance to an amount that it believes will be adequate to absorb possible losses on accounts that may become uncollectible, based on evaluations of the collectability of individual accounts, the history of prior loss experience and on current economic conditions. Accounts are written off and charged against the allowance when management believes that the collectability of the specific account is unlikely. The accompanying statements of financial position at June 30, 2016 and 2015 do not include an allowance for doubtful accounts as one was not considered necessary by management.

Investments – The Corporation’s investments are carried at fair value (see Notes 2 and 3). Changes in fair value are reflected in the statement of activities as net realized and unrealized gains (losses) on investments.

Property and Equipment – Property and equipment are stated at cost (see Note 4). Maintenance, repairs and minor renewals and additions are expensed as incurred, whereas major renewals and betterments are capitalized. When an asset is retired or disposed of, the related costs and allowances for depreciation or amortization are removed from the accounts and any gain or loss on the disposition is reflected in the statement of activities. Depreciation is provided over the estimated useful lives of the assets by using straight-line methods. The estimated useful lives used in the computation are as follows:

<u>Assets</u>	<u>Estimated Useful Lives in Years</u>
Building and renovations	40
Furniture, fixtures and equipment	7-10
Motor vehicles	5

Note 1 - Summary of Significant Accounting Policies (Cont.)

Goodwill – The excess of purchase cost over the fair value of identifiable net assets obtained in a prior year acquisition of a bulletin company was recorded at cost as goodwill. Goodwill is not amortized but rather is evaluated for impairment at least annually, or more frequently, upon the occurrence of an event or when circumstances indicate that the recoverability of the goodwill is unlikely. Based on a qualitative assessment, if the Corporation determines that it is more likely than not that the fair value of the division or reporting unit is less than the carrying value, then the Corporation will proceed to a quantitative assessment and test of goodwill impairment. The quantitative goodwill testing utilizes a two-step impairment analysis, whereby the carrying value of the division or the reporting unit is compared to its fair value. If the carrying value of the reporting unit is greater than its fair value, the second step is performed, where the fair value is allocated to the known values of assets and liabilities, with the remaining fair value representing goodwill. The implied fair value of goodwill is then compared to its current carrying value. If the carrying amount of goodwill exceeds its fair value, an impairment charge would be recognized via a charge to the statement of activities. There have been no impairment charges to date.

Deferred Revenue – Deferred revenue consists of subscription and advertisement revenues received in the current fiscal year, or prior fiscal years that will be fulfilled through services performed in future fiscal years.

Contributions and Donor Restrictions – Contributions that are unconditional promises to give to the Corporation are recognized as support in the period made at their fair values. Those that are pledged or expected to be collected after one year, or over a period of years, are recorded at the discounted present value of expected future cash flows. Subsequent accruals of the "interest" element of the receivable are also recorded as contributions.

The Corporation reports contributions of cash or other assets as restricted support, thereby increasing temporarily restricted net assets, if they are received with donor stipulations that limit, specify or otherwise restrict the use of such contributions. When a donor restriction expires, either by use of the funds for the specified purpose or by the expiration of a time restriction, temporarily restricted net assets are reclassified to unrestricted net assets and reported in the statement of activities as net assets released from restrictions (see Note 10).

Contributions received for the purpose of, or in connection with, a campaign to raise funds for acquiring property or equipment, or renovating a facility, are reported as support, increasing temporarily restricted net assets. When the expenditures for the acquisition or renovations are incurred, the financial statements report a reduction in temporarily restricted net assets and an increase in unrestricted net assets.

Endowment funds established by donor restrictions to permanently maintain the principal, while allowing the use of income generated therefrom, are classified as permanently restricted net assets. Income derived from the investment of endowment funds is reported as unrestricted revenue or as restricted revenue depending on the terms of the donor instrument.

Under generally accepted accounting principles and Massachusetts General Laws, unrealized gains from endowment fund investments are reported as increases in temporarily restricted net assets unless the donor explicitly states otherwise. Unrealized losses are first recorded as reductions to temporarily restricted net assets derived from endowment funds then to unrestricted net assets (see Notes 10 and 11).

Contributed Services – Contributions of services to the Corporation are recognized as support with an equal amount recognized as expense if the services provided require special skills, and would need to be purchased by the Corporation if not contributed (see Note 8).

Lease Revenue Recognition – The Corporation generates revenues through the leasing of its excess capacity for certain stations licensed by the Federal Communications Commission. When a lease agreement specifies uneven payments over its term that are not reflective of the availability or use of the air time, related revenue is nevertheless recognized evenly on a straight-line basis over the term of the lease by recording either an asset ("accrued lease revenue") or a liability ("deferred lease revenue") on the Corporation's statement of financial position (see Note 6).

Note 1 - Summary of Significant Accounting Policies (Cont.)

Income Tax Status – The Corporation is exempt from income taxes under Section 501(c)(3) of the Internal Revenue Code. The Corporation is also exempt from Massachusetts state income taxes and, therefore, has made no provision for federal or state income taxes in the accompanying financial statements (see Note 13).

Evaluation of Subsequent Events – Management has evaluated subsequent events involving the Corporation for potential recognition or disclosure in the accompanying financial statements. Subsequent events are events or transactions that occurred after June 30, 2016 up through September 27, 2016, the date the accompanying financial statements were available to be issued.

Note 2 - Investments

Investments consist of the following at June 30:

	2016		2015	
	<u>Cost</u>	<u>Fair Value</u>	<u>Cost</u>	<u>Fair Value</u>
Common Investment Fund, Roman Catholic Archbishop of Boston	\$ 14,446,957	\$ 17,076,480	\$ 14,446,957	\$ 18,597,836
Money Market Fund, Roman Catholic Archbishop of Boston	1,241,492	1,313,754	1,241,492	1,294,617
	<u>\$ 15,688,449</u>	<u>\$ 18,390,234</u>	<u>\$ 15,688,449</u>	<u>\$ 19,892,453</u>

Investments represent the Corporation's unit holdings in the Common Investment Fund and the Money Market Fund, Roman Catholic Archbishop of Boston, A Corporation Sole, separate related entities established to provide common investment pools in which the Corporation and other related organizations may participate. The participants own units based upon a per-unit value at the time of purchase. The Common Investment Fund and the Money Market Fund incur service fees from the Corporation Sole for administrative and clerical services performed on behalf of the funds. These fees are reflected in the calculation of the value per unit. Dividend income from these investments totaled \$695,243 and \$746,136 for the years ended June 30, 2016 and 2015, respectively.

The Common Investment Fund invests nearly all of its funds in the RCAB Collective Investment Partnership (the "Investment Partnership"), the underlying investments of which are primarily equity and fixed-income securities (U.S. Government and agency securities, asset-backed securities and corporate bonds) owned either directly or indirectly through mutual funds and private entities. The fair value of the Investment Partnership's investments in actively-traded domestic securities is determined by State Street Corporation, which obtains bid price quotations from independent pricing services on most securities. Investments in traded foreign securities are fair valued by State Street Corporation at the mean between bid and asked prices. For those securities whose prices are not available through independent pricing services, fair value is estimated by bid price quotations obtained by State Street Corporation from principal makers in those securities or as determined in good faith by management. Investment holdings of private investment entities that are not actively traded are valued by the managers of these entities.

The Money Market Fund invests its funds in money market funds of two high-quality financial institutions and one publicly-traded, asset-backed bond held by State Street Corporation as the custodian. The estimated fair value is based on the underlying net asset value of the Fund as valued by the Roman Catholic Archbishop of Boston.

Note 2 – Investments (Cont.)

The Corporation's investments (including investments bought, sold and held during the year) (depreciated) appreciated in value as follows during the years ended June 30:

	<u>2016</u>	<u>2015</u>
Common Investment Fund, Roman Catholic Archbishop of Boston	\$ (1,521,356)	\$ (405,166)
Money Market Fund, Roman Catholic Archbishop of Boston	19,137	7,427
	<u>\$ (1,502,219)</u>	<u>\$ (397,739)</u>

Risks and Uncertainties – The Corporation's investments are exposed to various risks, such as interest rate, market and credit. Due to the level of risk associated with these investment securities, and the level of uncertainty related to changes in the value of investment securities, it is at least reasonably possible that changes in risks in the near term would materially affect the amounts reported in the Statements of Financial Position and the Statements of Activities.

Note 3 – Fair Value Measurements

The Corporation measures the fair values of assets and liabilities as an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. A fair value hierarchy is used to prioritize the inputs to valuation techniques used to measure fair value. The Corporation classifies its assets and liabilities as follows: Level 1 (securities valued using quoted prices from active markets for identical assets), Level 2 (securities not traded on an active market for which observable market inputs are readily available), and Level 3 (securities valued based on significant unobservable inputs). Investments are classified in their entirety based on the lowest level of input that is significant to the fair value measurement.

The Corporation's financial assets that are accounted for at fair value on a recurring basis as of June 30, 2016 and 2015, by level within the fair value hierarchy, are presented in the table below. Financial assets measured at fair value on a nonrecurring basis are excluded from the table.

	Level 1 Quoted Prices in Active Markets for Identical Assets	Level 2 Significant Other Observable Inputs	Level 3 Significant Unobservable Inputs	Total
<u>June 30, 2016</u>				
Units of Common Investment Fund	\$ -	\$ 17,076,480	\$ -	\$ 17,076,480
Units of Money Market Fund	-	1,313,754	-	1,313,754
	<u>\$ -</u>	<u>\$ 18,390,234</u>	<u>\$ -</u>	<u>\$ 18,390,234</u>
 <u>June 30, 2015</u>				
Units of Common Investment Fund	\$ -	\$ 18,597,836	\$ -	\$ 18,597,836
Units of Money Market Fund	-	1,294,617	-	1,294,617
	<u>\$ -</u>	<u>\$ 19,892,453</u>	<u>\$ -</u>	<u>\$ 19,892,453</u>

Note 3 – Fair Value Measurements (Cont.)

Unit values in the Common Investment Fund (CIF) and Money Market Fund (MMF) do not have quoted prices in active markets or significant other observable inputs that have quoted market prices, although the Corporation can redeem its investments at the net asset values per share at June 30, 2016. These assets are classified as being Level 2 inputs under the fair value hierarchy in accordance with generally accepted accounting principles. The Corporation estimates the fair value of its unit holdings in the CIF and MMF based on the Corporation's share of the underlying investment portfolio that consists of actively-traded equities, bonds and money market funds.

Note 4 – Property and Equipment

Property and equipment consist of the following at June 30:

	<u>2016</u>	<u>2015</u>
Land	\$ 440,663	\$ 440,663
Building and renovations	6,166,405	6,166,405
Furniture and fixtures	3,480,397	3,480,397
Motor vehicles	53,063	62,668
Equipment	<u>14,537,785</u>	<u>14,259,338</u>
	24,678,313	24,409,471
Less accumulated depreciation	<u>17,137,529</u>	<u>15,809,009</u>
	<u>\$ 7,540,784</u>	<u>\$ 8,600,462</u>

Depreciation expense was \$1,368,962 and \$1,382,230 for the years ended June 30, 2016 and 2015, respectively.

Note 5 – Financing Agreement

The Corporation has a financing agreement with a finance company for the purchase of equipment. The original amount of the note is \$35,000, collateralized by the equipment, and payable in sixty monthly principal and interest payments of \$724 through maturity in February of 2017, at an effective interest rate of 9.465%. The outstanding principal balance as of June 30, 2016 is \$7,045.

Note 6 – Lease Commitments

As Lessee – The Corporation leases certain equipment and commercial space to accommodate certain broadcasting and printing equipment needs under agreements expiring at various dates through the year 2021.

Subsequent to its year-end, in September of 2016 the Corporation entered into a lease agreement for printing equipment and a commitment to purchase approximately two million images per month for 60 monthly payments of \$25,500. In connection with this lease, the lessor provided the Corporation with approximately \$75,000 to defray the cost of the remaining lease payments on its existing lease for printing equipment which will no longer be used. The future minimum lease payments for the lease entered into subsequent to the balance sheet date are included in the schedule below.

Note 6 – Lease Commitments (Cont.)

Future minimum lease payments approximate the following:

Year Ending June 30	
2017	\$ 379,000
2018	366,000
2019	332,000
2020	307,000
2021	306,000
Thereafter	51,000
	<u>\$ 1,741,000</u>

Rent expense under the terms of the leases approximated \$165,000 and \$162,000 for the years ended June 30, 2016 and 2015, respectively.

As Lessor – The Corporation is the lessor in an agreement whereby it leases to a major corporation certain of its excess capacity with respect to the Educational Broadcast Service channels licensed to it by the Federal Communications Commission. Under the agreement, the Corporation currently receives a fee of \$190,000 per month until February of 2020, increasing to \$230,000 per month for the next five years, and escalating to \$650,000 per month in year 26 of the 30-year agreement, which expires in the year 2040. In addition to the monthly fees, the Corporation received a one-time initial fee of \$2 million. The lessee is also responsible for costs associated with FCC license renewals for the duration of the agreement. The agreement also called for three anniversary payments of \$2.5 million for the first and second payments, and \$2 million for the third payment. The anniversary payments were received during the years ended June 30, 2014, 2013 and 2012. For the years ended June 30, 2016 and 2015, the Corporation received \$2.28 million and \$2.14 million in fees, respectively. The Corporation has recognized \$4.8 million of revenues in both 2016 and 2015 for a total of \$33.5 million recognized under the contract based upon the straight-line method of reporting lease revenue (see Note 1). At June 30, 2016, the Corporation has recorded approximately \$11.1 million of “accrued lease revenue” (\$8.6 million at June 30, 2015). The agreement is cancellable by either party only under certain conditions.

Future lease payments are receivable as follows:

June 30	
2017	\$ 2,280,000
2018	2,280,000
2019	2,280,000
2020	2,440,000
2021	2,760,000
Thereafter	109,542,258
	<u>\$ 121,582,258</u>

Note 7 - Employee Pension Plan

The Corporation participates in a multi-employer noncontributory employee retirement income plan, the Roman Catholic Archdiocese of Boston Pension Plan. The plan provides defined benefits to participants upon retirement. The amount of the Corporation's annual contribution is actuarially determined and is accrued and funded annually. The relative position of the Corporation with regard to the plan's net assets and actuarial present value of accumulated plan benefits has not been distinguished from those of other groups participating in the retirement income plan. At June 30, 2015 and 2014, the financial statements of the plan reflected approximately \$216.0 million and \$224.8 million, respectively, in net assets available for benefits and \$241.6 million and \$247.0 million, respectively, in accumulated plan benefits. Effective December 31, 2011, the Archdiocese of Boston amended the plan in order to curtail benefit accruals for plan participants. In addition, no additional participants are allowed into the plan. Pension expense for the years ended June 30, 2016 and 2015 was approximately \$114,000 and 115,000, respectively, for the defined benefit plan.

To replace the curtailed defined benefit pension plan, the Archdiocese of Boston established a 401(k) defined contribution plan on January 1, 2012. The Corporation contributes a matching contribution subject to formulas defined in the plan document. Contributions by the Corporation approximated \$66,000 for the year ended June 30, 2016 (\$45,000 in 2015). Each eligible employee may defer up to 100% of compensation subject to limits of the maximum amount allowed by law.

Note 8 – Contributed Services

For the years ended June 30, 2016 and 2015, the Corporation recorded contributions of \$158,241 and \$153,632, respectively, for the full-time services performed by the priest who serves as the president of television programming. These amounts represent the estimated additional compensation that would be paid to a layperson performing the same services (see Note 1).

Note 9 – Related Party Transactions

Insurance Charges – During the years ended June 30, 2016 and 2015, the Corporation was charged \$556,848 and \$582,749, respectively, for health, life, disability and general insurance administered by the Roman Catholic Archbishop of Boston (RCAB), a Corporation Sole (an entity related by common board members). There were no amounts due to RCAB for insurance at June 30, 2016 and 2015.

Note Payable – The purchase of a bulletin company in a prior year was financed by a 5-year, \$990,000 loan from the RCAB, payable in monthly principal and interest installments at a variable rate of interest. In August of 2013, the Corporation amended and restated the original promissory note by refinancing the existing debt amount of \$454,490 and borrowing an additional \$724,990 for a total loan of \$1,179,480. The current note is payable in 119 monthly principal and interest installments of \$12,510, with a final installment due on July 15, 2023 equal to the remaining outstanding principal balance, along with any unpaid and accrued interest. The loan bears interest at the applicable rate per the agreement, which can vary from time to time. The interest rate charged during the year ended June 30, 2016 was 3.75%. The interest rate charged during the year ended June 30, 2015 started at 4%, and during the year it was reduced to 3.75%. In addition, the loan is secured by a first priority security interest in one of the Corporation's investment accounts within the Common Investment Fund (Note 2), which had a fair market value of approximately \$10,856,000 at June 30, 2016.

Note 9 – Related Party Transactions (Cont.)

Maturities on the amended and restated agreement over the next five years are as follows:

<u>Year Ending</u> <u>June 30</u>	
2017	\$ 119,802
2018	124,372
2019	129,117
2020	134,043
2021	139,157
Thereafter	<u>215,731</u>
	<u>\$ 862,222</u>

Revenues – During the years ended June 30, 2016 and 2015, the Pilot Media Group received revenues of approximately \$130,000 and \$160,000, respectively, and the Pilot Bulletins and Pilot Printing Group received revenues of approximately \$261,000 and \$128,000, respectively, from services provided to the RCAB. At June 30, 2016, accounts receivable from RCAB for these services approximated \$109,000 (\$122,000 at June 30, 2015).

Note 10 – Restricted Net Assets

Permanently restricted net assets at June 30 are restricted to investment in perpetuity, the income from which is expendable to support:

	<u>2016</u>	<u>2015</u>
Religious programming and education	\$ 5,000,000	\$ 5,000,000
Sunday masses	20,000	20,000
Masses	5,000	5,000
	<u>\$ 5,025,000</u>	<u>\$ 5,025,000</u>

Temporarily restricted net assets at June 30 consist of the following:

	<u>2016</u>	<u>2015</u>
Restricted for religious programming and education	\$ 61,328	\$ 67,958
Restricted for masses	307	340
Restricted for closed captioning software	-	45,000
Unrealized gains on investments related to permanently restricted net assets (Notes 1 & 2)	<u>1,082,027</u>	<u>1,626,107</u>
	<u>\$ 1,143,662</u>	<u>\$ 1,739,405</u>

During the years ended June 30, 2016 and 2015, net assets were released from donor restrictions by incurring expenses or by the occurrence of other events satisfying the restricted purposes as follows:

	<u>2016</u>	<u>2015</u>
Religious programming and education	\$ 258,620	\$ 270,158
Sunday masses	1,034	1,081
Masses	259	270
Closed captioning software	45,000	-
Catholic magazines	10,000	-
	<u>\$ 314,913</u>	<u>\$ 271,509</u>

Note 11 – Endowments

The Corporation's endowments consist of three individual funds established for the support of various activities. As required by accounting principles generally accepted in the United States, net assets associated with endowment funds are classified and reported based on the existence or absence of donor-imposed restrictions.

Interpretation of Relevant Law – The Corporation has historically viewed the Massachusetts Uniform Prudent Management of Institutional Funds Act (UPMIFA) as requiring the Corporation to preserve the fair value of the original gift as of the gift date of the donor-restricted endowment funds absent explicit donor stipulations to the contrary. As a result of this interpretation, the Corporation classifies as permanently restricted net assets (a) the original value of gifts donated to the permanent endowment, (b) the original value of subsequent gifts to the permanent endowment, and (c) accumulations to the permanent endowment made in accordance with the direction of the applicable donor gift instrument at the time the accumulation is added to the fund. This is regarded as the “historic dollar value” of the endowment fund. The remaining portion of the donor-restricted endowment fund that is not classified in permanently restricted net assets and is regarded as “net appreciation” is classified as temporarily restricted net assets until those amounts are appropriated for expenditure by the Corporation.

Endowment Investment Policy – The Corporation has adopted an investment philosophy which, combined with the spending rate, attempts to provide a predictable stream of returns thereby making funds available to programs that are supported by its endowment, while at the same time seeking to maintain the purchasing power of the endowment assets. Endowment assets include those assets of donor-restricted funds that the Corporation must hold in perpetuity or for donor-specified periods. Under the Corporation's investment policy and spending rate, both of which are approved by the Board of Trustees, the endowment assets are invested in a manner that is intended to produce an inflation-adjusted return in excess of the spending rate over a long period of time. Actual returns in any given year may vary.

Strategies Employed for Achieving Objectives – To satisfy its long-term rate-of-return objectives, the Corporation relies on a total return strategy in which investment returns are achieved through both capital appreciation (realized and unrealized) and current yield (interest and dividends). From the time when the Corporation was organized, the Corporation has invested its endowment investment portfolio in the Common Investment Fund which, in turn, invests in the Investment Partnership (Note 2). The Investment Committee of Corporation Sole is responsible for selecting the investment managers of the Investment Partnership. The Investment Committee's investment rationale is to include an array of different strategy investment managers for the Investment Partnership's portfolio to reduce overall volatility while providing investment returns above industry benchmarks.

Endowment Net Assets – The composition of donor-restricted endowment funds is presented below by net asset class, including changes in the funds by class:

	Endowment Fund Net Assets			
	Unrestricted	Temporarily Restricted	Permanently Restricted	Total
For the year ended June 30, 2016:				
Endowment net assets at beginning of year	\$ -	\$ 1,694,405	\$ 5,025,000	\$ 6,719,405
Interest and dividends	-	253,250	-	253,250
Unrealized losses on investments	-	(544,080)	-	(544,080)
Appropriation of endowment assets for expenditure	-	(259,913)	-	(259,913)
Endowment net assets at end of year	<u>\$ -</u>	<u>\$ 1,143,662</u>	<u>\$ 5,025,000</u>	<u>\$ 6,168,662</u>

Note 11 – Endowments (Cont.)

	Endowment Fund Net Assets			Total
	Unrestricted	Temporarily Restricted	Permanently Restricted	
For the year ended June 30, 2015:				
Endowment net assets at beginning of year	\$ -	\$ 1,839,024	\$ 5,025,000	\$ 6,864,024
Interest and dividends	-	271,789	-	271,789
Unrealized losses on investments	-	(144,899)	-	(144,899)
Appropriation of endowment assets for expenditure	-	(271,509)	-	(271,509)
Endowment net assets at end of year	<u>\$ -</u>	<u>\$ 1,694,405</u>	<u>\$ 5,025,000</u>	<u>\$ 6,719,405</u>

Note 12 - Financial Instruments and Concentrations

The Corporation's financial instruments that potentially subject it to concentrations of credit risk consist of cash, cash equivalents, investments, accrued lease revenue and debt.

The Corporation maintains its cash accounts in high quality financial institutions. At times, the amounts on deposit at any institution may be in excess of insured limits. At June 30, 2016, based on bank balances, cash in excess of the FDIC insurance limit approximated \$1,128,000.

As more fully disclosed in Note 2, the Corporation's investments at June 30, 2016 consist of mutual funds administered by the Roman Catholic Archbishop of Boston in an amount approximating \$18,390,000.

As more thoroughly disclosed in Note 6, the Corporation's "accrued lease revenue" of approximately \$11 million at June 30, 2016 is related to a long-term lease of certain of its broadcasting rights to a single user/lessee, a major national corporation, and the amount approximates 28% of the Corporation's total assets (29% of its net assets). Revenues recognized under this lease totaled \$4.8 million in both years ending June 30, 2016 and 2015, representing 51% and 47% of the Corporation's total revenues, gains and support.

At June 30, 2016, the Corporation had approximately \$862,000 in debt payable to a related party (see Note 9).

Revenues of the Pilot Bulletin Group are concentrated in parishes located within the ecclesiastical territory of the RCAB.

Note 13 – Income Taxes

The Corporation adopted a policy of recognizing the financial statement benefit of a tax position only after determining that the relevant tax authority would more likely than not sustain the position following an audit. For tax positions meeting the more-likely-than-not threshold, the amount recognized in the financial statements is the largest benefit that has a greater than 50 percent likelihood of being realized upon ultimate settlement with the relevant tax authority. The Corporation's management has reviewed the tax positions for open periods and determined that no provision for income tax is required in the Corporation's financial statements.